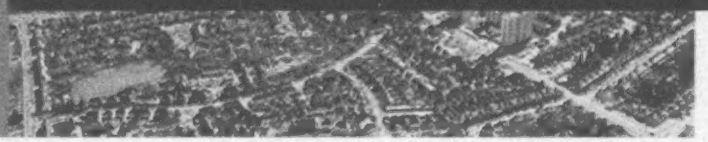
HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Saguenay CMA



Canada Mortgage and Housing Corporation

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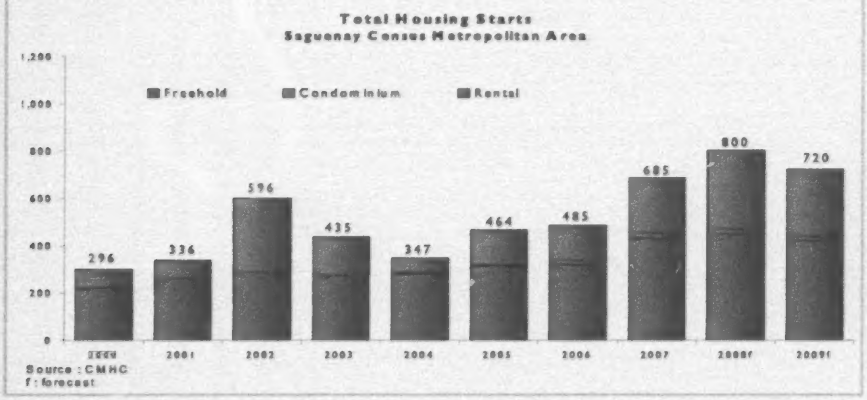
Economic and demographic conditions

In the Saguenay census metropolitan area (CMA), the labour market has been experiencing a slowdown for the past few quarters. In fact, following a loss of 175 jobs in 2007, the CMA saw 245 more jobs disappear from January to August 2008. This decrease in the number of employed persons resulted from a forestry crisis that forced several plants to shut down and also from the high job levels observed in the area in 2004 and 2006. These high employment levels were attributable to the labour demand from a few major industrial projects, including the construction of the Péribonka IV hydroelectric dam and the expansion of the Alouette plant in Sept-Îles. Since these projects have been completed and the next major industrial projects—construction of a new plant in Jonquière by Rio Tinto Alcan and the Eastmain-1-A–Rupert–Sarcelles hydroelectric power station by Hydro-Québec—are only at their preliminary phase, many workers are now unemployed. The projects will pick up the pace

Figure 1



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starting in the summer of 2009 and will reach their cruising speed in 2010. It is therefore expected that the number of jobs in Saguenay will decrease between 1.8 to 2.2 per cent in 2008. Despite this decrease, the employment level, at 69,000, will remain above the average of 68,000 for the last 10 years. In 2009, employment should pick up slightly.

The Saguenay CMA economy has strengthened in recent years with the announcement of major investment projects, such as the widening of Highway 175 and the modernization of the Rio Tinto Alcan plant. In addition, the gradual increase in retirements seems to be having an impact on net migration, as there are more and more quality jobs for young people, who are no longer forced to leave the area. For the first time since the year 2000, the latest interregional migration statistics[1] indicate a positive result for the 25 to 44 years'age group. However, net interregional migration remains negative overall. At the interprovincial level, the CMA is also facing a deficit, although smaller. Lastly, only international migration has shown positive results since the beginning of the decade, but these levels are far from sufficient to offset the departures to other Quebec areas or other provinces. It is therefore expected that total net migration will go from -794 in 2007 to -600 in 2008 and then to -450 in 2009.

Still on the demographic front, household formation remains positive, despite the decline in the population. The aging of the population, as well as divorces and separations, are the main reasons. In the Saguenay CMA, about 350 households will be formed annually over the next five years.

Mortgage Rates

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will decrease slightly in the first half of 2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one year posted mortgage rate will be in the 6.00-6.75 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

Residential construction to stay strong in 2008 and 2009

For a fourth straight year, starts will be on the rise in the Saguenay CMA in 2008. In fact, after reaching 464, 485 and 685 units in the last three years, respectively, total starts in the area should attain 800 units in 2008. This will be an increase of 17 per cent over 2007 and the highest result for the Saguenay CMA since 1991, when 955 starts had been enumerated. In 2007, both the freehold home segment[2] (+35 per cent) and the rental housing segment (+58 per cent) had fuelled the growth. Since the first segment was very active last year, a small gain is expected in 2008. The construction of a building with more than 200 apartments in Chicoutimi will cause the second segment to post a greater increase and will account for 29 per cent of all starts in 2008.

Given that financing conditions remain attractive, that the number of existing homes for sale is limited and that employment is at a historically high level, a slight decrease in expected in 2009. Construction should therefore get under way on 720 units, or 10 per cent fewer than in 2008.

Level of freehold home building will be high

As mentioned earlier, freehold home building has been increasing significantly for the past few years. From an annual average of 265 units from 2000 to 2005, starts rose to 315 and 318 units in 2005 and 2006, respectively, and then to 430 units 2007. The last time that such a high volume was recorded in the Saguenay CMA was in 1997, after the flooding. At that time, many homes had been destroyed or damaged, resulting in a need to rebuild. The environment in which the market has evolved in recent years is therefore quite different and is instead based on solid economic fundamentals.

In 2008 and 2009, the impact of these economic factors will remain positive. Despite the job losses registered since the beginning of the year, the labour market continues to benefit from several major industrial and infrastructure investment projects. As these projects are not dependent on the global economy, they will support the labour market

[1] ISQ website (Migration and Immigrant Population). Source: Processing by the Institut de la statistique du Québec of an anonymized version of the insured persons registration file (FIPA) of the Régie de l'assurance maladie du Québec (RAMQ), MRC (regional county municipality) or equivalent territory.

[2] Freehold homes include single-detached, semi-detached and row houses, as well as duplexes.

over the next few years. Net migration will keep improving, which will lead to an increase the number of potential buyers and, as a result, a greater demand on the overall housing market. Lastly, mortgage rates should fall slightly, which will extend the attractive financing conditions of recent years.

The tightening of the rental market in the last few years is another factor that must be taken into account. This should stimulate the construction of duplexes in 2008 and 2009, since the rental of the second unit provides these homeowners with a certain income. The limited supply on the resale market will also boost the construction of freehold homes, as some households will be prompted to opt for a new house after not being able to find a property that suits them on the existing home market.

We therefore forecast that 450 freehold homes will be started in 2008, or 20 more than in 2007 (+5 per cent). These new dwellings will include 375 single-detached houses and 50 duplex units. Most will be built in the boroughs of Jonquière and Chicoutimi, and a few, in La Baie and Saint-Honoré. In 2009, even though a slight slowdown is anticipated, the freehold home starts volume will remain high, with 420 such new units expected, or 7 per cent fewer than in 2008.

Retirement home segment supporting rental housing construction

The construction of rental housing, with the exception of retirement homes, continues to be very limited in the Saguenay CMA. Until 2005, this was understandable, since the vacancy rate was still above 4 per cent, so there was no significant need for new units. Since then, however, the vacancy rate has been steadily falling. According to the latest results (April 2008), this rate stood at 1.8 per cent, which would normally stimulate apartment construction. But this is not the case, and it is not expected to be case in 2008 or 2009. The fact is that current construction costs—including the land—are such that it is difficult for developers to offer rents that would be competitive with average market rates, making it hard to rent out the apartments. In addition, with the aging of the population, another segment is taking over, namely, retirement housing.

Since 2002, 51 per cent of all rental housing units started in the area had been intended for seniors. In 2008, this share will rise to 70 per cent, with the construction of the fifth phase of an existing residence in Chicoutimi (an expansion with over 200 apartments). In 2009, construction could get under way on another retirement home, this one with just under 200 units. These projects arose in part from the fact that the vacancy rate for apartment retirement homes in Chicoutimi stood at 0 per cent in October 2007.

In all, it is expected that 330 rental housing units (including those intended for seniors) will be started in 2008, or 43 per cent more than in 2007. In 2009, there should be a slight decrease in activity, as 280 starts of this type are anticipated (-15 per cent).

Little movement on the rental market

The aging of the population, the constant improvement in net migration and the good performance of the labour market in recent years have led to a greater demand for rental dwellings and, as a result, a tighter a rental market. This caused the vacancy rate to fall from 5.6 per cent in 2004 to 2.8 per cent in 2007. In addition to these factors, there should slightly more CEGEP students in the area in 2008. Supply, despite only a very small rise, should meet these new needs and, for this reason, we do not expect the market to ease significantly in 2008. In fact, the vacancy should reach 3 per cent this year, compared to 2.7 per cent in 2007. For 2009, we are anticipating a slightly greater increase

in supply as a result of the tighter market, while demand should, at the very least, be maintained. Consequently, the vacancy rate will reach 2.9 per cent in 2009.

Condominiums gaining a foothold in the area

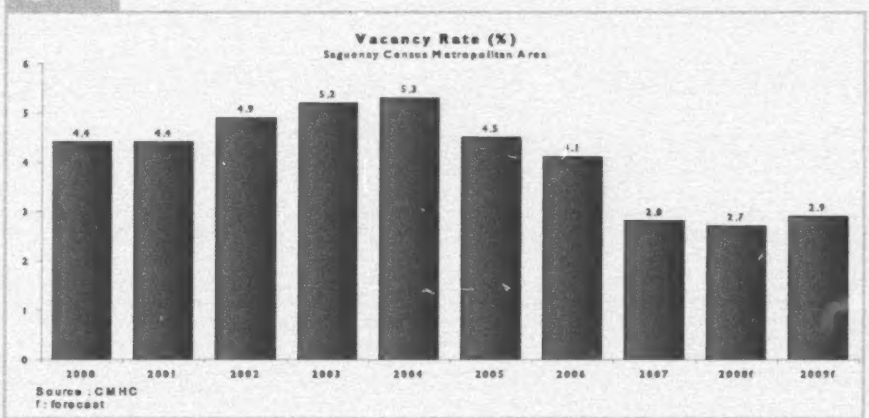
Condominiums seem to be taking root in the Saguenay CMA housing market. While their numbers are rather limited (some 20 new units annually since 2006), this is a tenure option that meets the needs of specific client groups. While their relatively low prices attract first-time home buyers, their low maintenance appeals to retiring households. They are very well suited to older households wishing to remain homeowners but for whom maintaining a property is becoming a burden. Given that the aging of the population will only intensify, activity in this market segment should at least be maintained in the short term. For the moment, the fact that new and existing homes are not as expensive here as in other large urban centres across Quebec, where condominiums are well implanted, is probably the main reason for the limited number of condominium starts in Saguenay. In 2008 and 2009, foundations should be laid for about 20 units of this type.

Fast growth in prices to affect existing property sales

Sales of single-family homes[3] reached a peak in 2007 in the Saguenay CMA. In fact, 1,303 homes were sold through the Service inter-agences / Multiple Listing Service (S.I.A. / MLS)® during the past year, or 51 more than the previous record set in 2005 (1,252 transactions). In 2008, a slowdown is expected, even though the economic and demographic conditions will remain favourable. The reason is that single-family home prices have risen significantly in recent years, and this is starting to cause some hesitation among potential buyers. The average price effectively went from $94,346 in 2003 up to $136,913 in 2007, for an increase of 45 per cent in four years. For several years now, sellers have had the edge in determining prices, on account of the limited supply and a strong demand. Consequently, we are seeing price hikes well above inflation. Since the situation will not be any different in 2008, 1,230 sales are anticipated, and the average price should reach $150,000 (+10 per cent).

In 2009, the sales volume will be essentially the same as in 2008, as the factors supporting demand will remain solid. However, inventories are expected to rise slightly in the price ranges that are in competition with the new home market. This should cause the market to ease, somewhat lessening the pressure on the average selling price in this range. We therefore expect that single-family homes will sell for an average of $160,000 in 2009 (+7 per cent).

Figure 2



[3] Single-family homes include detached, semi-detached and row houses.

Forecast Summary Saguenay CMA Fall 2008							
	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	1,252	1,239	1,303	1,230	-5.6	1,225	-0.4
MLS® Average Price ($)	109,008	120,242	136,913	150,000	9.6	160,000	6.7
New Home Market							
Starts:							
Single-Detached	267	271	373	375	0.5	345	-8
Multiples	197	214	312	425	36.2	375	-11.8
Semi-Detached	22	22	6	10	66.7	20	100.0
Row/Townhouse	6	9	9	15	66.7	5	-66.7
Apartments	169	183	297	400	34.7	350	-12.5
Starts - Total	464	485	685	800	16.8	720	-10.0
Average Price ($):							
Single-Detached	149,894	159,316	178,206	185,000	3.8	195,000	5.4
New Housing Price Index (% chg) (Que.)	4.9	4.4	4.2	n/d	-	n/d	-
Rental Market							
October Vacancy Rate (%)	4.5	4.1	2.8	2.7	-0.1	2.9	0.2
Two-bedroom Average Rent (October) ($)	472	485	490	500	-	510	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.06	6.28	6.90	6.75	-	6.31	-
Mortgage Rate (5 year) (%)	5.99	6.66	7.07	7.05	-	6.92	-
Annual Employment Level	71,800	68,200	70,400	69,000	-2.0	69,700	1.0
Employment Growth (%)	4.5	-5.0	3.2	-2.0		1.0	
Unemployment rate (%)	11	9.9	8.8	8.9	0.1	8.7	-0.2
Net Migration [1]	-1,308	-1,077	-794	-600	--	-400	--

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

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